UNITED STATES FOREIGN POLICY AND TRADE PROTECTIONISM

(BALANCING NATIONAL INTERESTS AND SPECIAL INTERESTS)

The Importance of Turkish Steel Access to the U.S. Market

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EXECUTIVE SUMMARY

Turkish steel imports should not be subject to restraints if such controls are to be imposed by the President. The ability of the U.S. steel industry to adjust to global competition will not be affected by Turkish steel imports. On the other hand, Presidential restraints of Turkish steel imports will have a significant impact on a brittle Turkish economy that is in serious need of export earnings. Steel is the third largest export sector from Turkey to the United States.

The U.S. steel industry already benefits from import restraints on certain Turkish steel products. Layering more restraints on Turkish imports is, therefore, unnecessary.

Among the factors that the President must take into account in his determination is the national security interests of the country. Given the current economic conditions in Turkey, and Turkey's very important role in the War against Terrorism, a unilateral and discretionary act by the President to take away Turkey's sorely needed access to the U.S. steel market would openly contradict the U.S. government's words of support. Instead of contradiction, the President, by maintaining Turkey's access to the U.S. market, has the opportunity to affirm America's support for this important ally.

STEEL EXPORTS FROM TURKEY SHOULD BE ALLOWED TO MAINTAIN MAXIMUM ACCESS TO THE U.S. MARKET

A. STEEL EXPORTS TO THE U.S. ARE IMPORTANT TO THE HEALTH OF THE TURKISH ECONOMY

1. Exports are Important to the Health of the Turkish Economy: The Turkish economy experienced high growth rates after extensive liberalization initiatives in the 1980s. Between 1990 and 2000, Turkish GDP grew from $150.6 billion to $199.9 billion. This growth rate was spurred largely by exports. Turkish exports of goods and services grew from 13.3% to 23.8% of GDP in the same time period. The export of goods alone contributed 9% and 16% respectively to GDP in these two years. The importance of exports for the domestic economy will increase further as Turkish products are becoming more competitive in international markets, and as Turkish producers are turning abroad for sales, against a backdrop of recession where domestic demand is frail.

2. Exports to the U.S. Are a Major Factor in Turkish Export Performance: The U.S. was Turkey's second largest export destination after Germany between 1996-2000. In that time frame, Turkey exported on average $5.3 billion to Germany, $2.3 billion to the U.S., $1.7 billion to the UK and $1.6 billion to Italy. With the foreign reserves acquired from these exports, Turkey imported even higher quantities of goods and services from its trading partners. The U.S. was Turkey's third largest import source after Germany and Italy in 1996-2000. Turkey also served as one of the few significant economies with which the United States enjoys a trade surplus. Between 1996-2000, Turkey imported on average $7.2 billion from Germany, $4.1 billion from Italy, $3.8 billion from the U.S., and $3.1 billion from France. Just under one half of all imports from the U.S. each year were under the category of machines and transportation equipment, averaging a value of $1.6 billion. The exchange reserves obtained from exports to the U.S. play a significant role in Turkey's trade balance and its ability to finance its development.

3. Steel Exports to the U.S. are an Important Part of Turkish Exports to the U.S.: After textiles and precious stones, steel exports to the U.S. are the third most important sectoral export from Turkey. From 1996-2000, the value of steel exports from Turkey to the U.S. averaged $178 million, subject to fluctuations caused by trade restraints taken by the U.S. at the request of its domestic steel producers. The U.S. market has consistently been an important destination for Turkish steel exporters since the trade liberalization initiatives of the 1980s in Turkey.

4. The Steel Industry Creates Significant Employment in Turkey: In terms of capacity, the distribution of Turkish steel mills in the geography of the country is as follows: 38% in the Aegean region, 29% in the Marmara (earthquake) region, 24% in the Southern Mediterranean region, and 9% in the Northern Black Sea region. In all of these regions, steel plants have employed an average of 28,000 people between 1996-2000. In addition, the transportation, storage, processing and marketing of steel products creates further employment with an estimated multiplier of 5,[1] resulting in total number of steel-related workers approximately at 135,000. Since most of these jobs exist in regions where women generally do not work, the jobs created directly or indirectly by the industry feed some 500,000 people - assuming an average family size of four. Steel plants, which are located in the otherwise underdeveloped regions of Karabük, Ereğli and İskenderun, are the main reason for the sustained development in those three regions. The chart below identifies the sectors that rely on steel as a major input and quantifies the ratio of steel inputs for unit production.

Turkish Industry	Steel Input Used in Unit Production
Consumer Durables	24%
Agricultural Machines	15%
Marine Vehicles	13%
Construction	11%
Non-electronic Machines	10%
Land Vehicles	9%
Railroad Vehicles	9%
Electronic Machines	4%
Non-iron Metals	2%

5. Steel Exports Generate Important Exchange Reserves for Turkey: Turkey's balance of payments position has been strained by the recent economic crisis. The economic crisis beginning in November 2000 and compounded in February of this year has caused a substantial flight of foreign capital and currency. While credits from international organizations are viewed as a principal help in narrowing this deficit, these credits are short-term injections for the economy. The only *sustainable* way of keeping a healthy balance of payments is through continued foreign investment and exports. Steel exports to the U.S. on the order of $200 million per annum are a major means by which to narrow the deficit and alleviate the impacts of the financial crisis.

6. A Restriction of Turkish Steel Exports to the U.S. Would Have Significant Adverse Effects: First, the export-led growth of the Turkish economy would be constrained, which would make it much more difficult to achieve the strategic goals discussed below. Second, a decrease in Turkey's foreign reserves would mean both a more vulnerable financial sector, and less demand in Turkey for U.S. products in Turkey. Third, it would have significant macroeconomic effects in Turkey through "spillover" effects. The number of jobs offered by the steel industry would suffer, as would those other industries that rely on the financial stability and production of steel producers (defense, transportation, construction, consumer durables, etc). A negative impact on the domestic steel industry would thus have ripple effects throughout other sectors of the economy, exacerbating the financial and economic crisis that the country finds itself in at present.

7. Turkey will experience restraints in other steel export markets if U.S. restraints are imposed. U.S. import restraints are likely to create a ripple effect of consequent

[1] Turkish Steel Producers Association ("DCUD")

import restraints in other major consuming markets. The net result of such a restrictive trend in global markets will likely be negative for Turkish exporters.

B. TURKEY IS PARTICULARLY IN NEED OF CONTINUED ACCESS TO THE REBAR, COLD-ROLLED FLAT, AND HOT-ROLLED LONG MARKETS IN THE U.S.

1. *Rebar, cold-rolled sheet and strip (other than GOES), hot-rolled bar and light shapes,* and *welded tubular products other than OCTG* have been the four most important Turkish steel exports to the U.S. over the past five years. These products are from all sectors in the industry -- namely the flat, long and tubular sectors -- and thus their export success is an important factor in the health of the steel industry in general. The chart below illustrates the importance of these particular products over other steel items that are exported from Turkey. In the recent steel global safeguard investigation, the International Trade Commission has recommended to the President that the imports of these four products be constrained for a period of up to four years.

U.S. Imports from Turkey, by volume (thousand tons)							
Product	1996	1997	1998	1999	2000	2001	Average
Cold Rolled Sheet and Strip (non-GOES)	51	179	145	78	34	42	88
Reinforcing Bars	118	75	8	38	172	94	84
Hot-Rolled Bar and Light Shapes	27	44	81	62	136	25	62
Welded non-OCTG	26	3	8	16	36	16	18
Ingots, Billets and Blooms	3	4	86	2	8	0.2	17
Welded OCTG	0	1	4	0.01	3	10	3
Wire	0.6	5	11	0.2	0.3	0.5	3
Strand, Rope, Cable and Cordage	2	1	2	0.6	3	0.7	2

C. TURKISH STEEL SECTOR POSES NO THREAT TO THE U.S. STEEL INDUSTRY

1. Turkish Steel Production does not Contribute Significantly to the Global Overcapacity Problem. Turkish steel plants, both integrated and arc furnace, have been operating at very high capacity utilization rates. To the extent that it exists, any overcapacity in the market is due to the imbalance between the domestic supply and demand of flat and long products. Incidentally, Turkey has traditionally had a surplus of long steel products but a shortage of flat steel products, due to investment decisions in the early days of the industry that supported two integrated plants producing long steel but only one integrated plant producing flat steel. This imbalance, however, is about to be eliminated when Isdemir is privatized and its entire long-production capacity is changed into flat-production capacity. This planned change in the market structure, which is expected to be completed in a few years, will increase the capacity utilization rates of long steel producers, and diminish the shortage of flat steel products in the country. The effects on trade will be a reduction on Turkish exports of long steel products and a reduction in Turkish imports of flat steel products. The charts below illustrate the capacity utilization rates for the long and flat steel industries between 1995 and 1999.

LONG PRODUCTS:

	Capacity Utilization Rate (%)				
	1995	1996	1997	1998	1999
Kardemir	89	103	103	94	91
Isdemir	72	85	87	89	86
Integrated	76	89	91	90	87
Arc Furnaces	60	60	63	64	66
Long total	62	65	68	68	70

FLAT PRODUCTS:

Products	Capacity Utilization Rate (%)
ERDEMIR	
Sheet	98.71
Hot-rolled	96.03
Cold-rolled	65.55
Tin	79.68
BORÇELIK	
Cold-rolled	86.00
TOTAL	
Sheet	98.71
Hot-rolled	96.03
Cold-rolled	69.87
Tin	79.68

2. Projected Increases In Domestic Demand Until 2005 Predict That Much of Turkish Steel Production Will Remain Within the Country. Contingent on the growth of the economy, projections[1] anticipate a growth in domestic demand for steel products within Turkey. In flat products (where there has traditionally been a shortage), 63.2% demand increase is projected between 1999 and 2005 for sheet and strip, along with a 69% increase in hot-rolled flat products, 67% increase in cold-rolled flat products, and 33% increase in tin mill products. Part of this expected demand increase is tied to post-earthquake reconstruction efforts that have been postponed due to economic downturn and are due to start as soon as the economy picks up again. The charts below illustrate projected demand until 2005 for flat and tubular steel industries.

[1] Republic of Turkey State Planning Organization, 2000 Special Industry Report on Iron and Steel

FLAT:

	Projected Demand (thousand tons)			
Products	2002	2003	2004	2005
Sheet and Strip	311	337	365	395
Hot-rolled flat	3.580	3.885	4.210	4.565
Cold-rolled flat	1.812	1.947	2.093	2.250
Tin	236	247	258	270

PIPE AND TUBE:

	Projected Demand (thousand tons)			
Products	2002	2003	2004	2005
Seamless Pipe	62	63	64	65
Welded Pipe	1.301	1.271	1.291	1.313
Total	1.363	1.334	1.355	1.378

*3. **Strict State Aid Regime Ensures that Subsidies to the Steel Sector are Minimal:*** Following the Customs Union with the EU, Turkey adopted EU's state aid regime. As a result, the state aid legislation is fully compatible with WTO standards. The state aid regime is even more restricted for the iron and steel sectors whereby only incentives for R&D, environmental protection and alleviation of social costs of capacity reductions are allowed.

D. TURKEY'S CONTINUING STRATEGIC ROLE, WHICH DEPENDS ON A HEALTHY ECONOMY, IS OF HIGH IMPORTANCE TO U.S. FOREIGN POLICY INTERESTS

1. Antiterrorism: As a peace-oriented country that is willing to make commitments to that end, Turkey is a key ally of the coalition against terrorism. Turkey has suffered from terrorism for decades and has responded with a consistent policy to punish terrorists and those who harbor them. The Turkish military has extensive experience in fighting against terrorism under conditions that are very similar to those in Central Asia. Turkey's extensive regional know-how in the Middle East and Central Asia -- along with its status as a leading *secular* Muslim country, its cultural affinity with the Turkic republics that bridge Europe to Central Asia, and its sizeable army -- has given Turkey a pivotal role in stabilizing the politics of the region.[1] The current involvement of Turkey in the efforts against terrorism is in the form of intelligence, military training and provision of air bases and air space for allied forces. In addition, the Turkish parliament has given the government the right to provide *unconditional* support for the U.S., including the provision of combat forces. The choice of Istanbul as the meeting site for Afghan opposition groups in late October,[2] and Turkey's willingness to provide

[1] "Turkey's Regional Ambitions Get Boost," The Wall Street Journal, 10.19.2001

[2] "Afghan Groups to Meet in Istanbul," The Washington Post, 10.24.2001

troops to safeguard any peacekeeping requirements that may occur in the future, reflect Turkey's growing role in the international efforts to achieve regional stability.

2. Global Security: Turkey provides NATO's second largest military force after the U.S., and it is the only Muslim member of NATO. Turkey has constituted the eastern flank of NATO through its key role during the Cold War and the Gulf War, and it continues to be a key geopolitical power. Turkey has consistently been committed to furthering global security, providing significant resources in Korea in the 1950s, and more recently in Iraq, Somalia, Bosnia Herzegovina and Kosovo. Turkey's compliance with the U.N. trade sanctions against Iraq, once one of Turkey's major trading partners, has cost the country an estimated amount of $30 billion -- a tradeoff that illustrates Turkey's commitment to global security over other national interests.

3. Opposition to Fundamentalism: Turkey is a democratic, secular, social state based on the supremacy of law, which has a dynamic market economy and vibrant private sector. As such, the democratic system in Turkey has consistently rejected attempts to undermine these values within its own borders, as well as on its periphery. While Turkey's neighbors in the Balkans, the former Soviet bloc and the Middle East succumbed to temptations of fascism, communism, non-alignment and Islamic fundamentalism time and again over the past decades, Turkey's commitment to secular democracy was challenged but never shaken.[1] The attempts in the 1990s by several Islamist political parties to subvert democratic principles in Turkey were unwelcome by the majority of the country's population and did not accomplish their goals.

4. Relations with Israel: Excellent relations between Turkey and Israel, which involves technical and intelligence exchanges in the military arena and a free trade agreement in the economic arena, have become a fixture of the regional landscape. This strategic relationship could be a driving force for Middle Eastern peace in the new century, where a strong and responsible sovereign with an Islamic population is needed to encourage stability.

5. Energy Policy and Central Asia: Turkey has become the key component of the U.S. policy to create an "East-West Corridor" developing transport, energy and communications infrastructure from the Caspian basin and Central Asia to world markets. Seventy percent of the world's natural energy sources are situated around Turkey.[2] The Baku-Ceyhan Project, which envisages the transport of Caspian oil to the west and which has received extensive support from the international community, provides the most effective way of transporting oil, with minimum risk to the environment. In addition, due to proximity and Turkic linguistic and ethnic ties, Turkish businesses continue to develop successful links with most of the Central Asian and Caucasian states. Economic and cultural influence originating from Turkey is likely to contribute greatly to accelerated development in Central Asian republics in the future.

[1] "The Turkish Model," The Wall Street Journal, 10.25.2001

[2] "White Book 2000," Republic of Turkey Ministry of National Defense

E. TURKEY'S ECONOMY HAS BECOME VERY FRAGILE DUE TO RECENT CRISES, AND TURKEY MUST BE ABLE TO EXPORT IN ORDER TO REBUILD ITS ECONOMY

1. East Asian and Russian Crises: Though Turkey resisted the East Asian crisis for a while, its proximity to Russia made it very vulnerable to the Russian crisis of 1998. The growth rate of the economy dropped from a solid 9.8% to an alarming 0.6% from the first to the last quarter of 1998. The Russian crisis affected the economy by motivating a sharp increase in the interest rate level and brought the boom in exports to the CIS countries to an abrupt halt.

2. Earthquake: Just as the Turkish economy had started to recover after the Russian crisis in the first half of 1999, the industrial heartland of Turkey was devastated by one of the largest earthquakes in the country's history -- hitting a region that accounts for 35 per cent of national GDP and almost half of the nation's industrial output. The economic damage inflicted in one day equalled an estimated 10% of the country's GNP. Consequently, the economy declined by 6.4% in the year 1999, the largest economic contraction since World War II. Over 18,000 people were estimated to have died in the earthquake, around 50,000 were injured. Approximately 600,000 people were forced to leave their homes. Wealth and income losses are estimated[1] to be in the range of $5 to $14 billion. Job loss estimates range from 20 to as much as 50 per cent of the pre-earthquake labour force in the affected region, due to both damage to business premises (demand side) and loss of life and health and out-migration (supply side). Overall, the disaster proved to inflict severe damages at a time when the economy was in need of recovery.

3. Financial Crisis in 2001: The recent crisis emphasized Turkey's vulnerability to inbuilt inflationary trends and a weak financial sector. Before the crisis, the unacceptably high rate of inflation at a time of pre-determined currency depreciation rates was already having an adverse impact on export competitiveness and began to raise doubts about whether the government could adhere to its planned exchange rate policy. When a public dispute within the country's leadership in early 2001 confirmed these doubts, international reserves plummeted, overnight interest rates shot up to as high as 7,000%, the Turkish Lira lost 40% of its value in one night. German investments alone were almost entirely withdrawn from the Turkish stock exchange and the stock market experienced its worst single-day loss by 18%. In the interim period since the crisis, unemployment has risen to a high 10.7% for the non-agricultural sector (2001Q2), and business activity has dramatically declined. The economic slowdown and loss of jobs has produced social unrest, which brought into question whether the government would enjoy the broad-based support needed for the multi-party coalition to carry through its recovery program in cooperation with the International Monetary Fund and World Bank.

4. Exports are Key Element in Turkey's Ability to Work Out of its Economic Crisis: International financial analysts agree that in a situation of collapsing domestic demand, exports are the only way to revive the terms of trade and restore the underlying confidence crisis. "With collapsing domestic demand, which fell by an unprecedented rate of 49.6% in the second

[1] Estimates from "Economic Effects of the 1999 Turkish Earthquakes: An Interim Report," OECD Economics Department Working Papers 92803, June 26, 2000.

quarter [of 2001] on top of the 37.6% fall recorded in the previous period, firms are concentrating on international markets to export their way out of this recession…. But global slowdown limits Turkey's export growth. Despite a boost from the exchange rate adjustment, the first synchronized global slowdown in years has unfortunately limited Turkey's export performance…. the bleak global outlook increases risk aversion towards emerging markets and thus limits capital flows, which actually drive the Turkish business cycle." [1] In short, Turkey needs every opportunity to maintain its exports in order to work out of its economic crisis. It is most vulnerable, at this point, to arbitrary and unilateral export market restraints.

F. TURKEY HAS UNDERTAKEN AMBITIOUS REFORMS IN ORDER TO BRING ITS MARKET ECONOMY UP TO THE MARK WITH THE STANDARDS OF A GLOBAL ECONOMY, AND IT HAS SHOWN COMMITMENT IN ITS EFFORTS

1. Tight Monetary and Fiscal Policies: A strict disinflation policy has been implemented since 1999 where the intermediate goals set by the IMF have been met to the Fund's satisfaction.

2. Structural Reforms: A wide array of structural reforms have been passed by Parliament in very short time -- a signal of commitment to a healthy market economy -- and have started to be implemented:

a) *Banking Reform:* The process of recapitalizing the public banks has been completed, in response to a major weakness in the banking system that caused the financial crisis of 2001. The Central Bank has been depoliticized and given independence. Private banks have been reorganized in an effort of recapitalization and less vulnerability

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b) *Privatization:* The Electricity Market Law and the Natural Gas Market Act were passed in 2001, which provided for the establishment of the "Energy Market Board" and the elimination of the state monopolies on electricity and natural gas. The Telecommunications Law which entered into force in 2000 and was amended in 2001 also aims to prepare the telecommunications sector to privatization and the introduction of full competition. A Telecommunications Regulatory Authority has been established to oversee this process. Privatization efforts in other sectors are ongoing.

c) *Fiscal Transparency:* A Public Procurement Law in line with EU standards is being drafted with the goals of complete de-politicization of the process, further transparency and efficiency, and increased monitoring of state enterprises included under this law.

[1] "Turkey: The Gravity of Recession and External Accounts." Morgan Stanley Dean Witter. September 7, 2001.

3. Constitutional Amendments: An extensive package of constitutional amendments was passed by Parliament in October 2001, with the introduction of rights to broadcast and publish in languages other than Turkish and establishment of restrictions on the ability to close down political parties. These amendments were a long-awaited move on behalf of the government to enhance the role of democracy in Turkey.

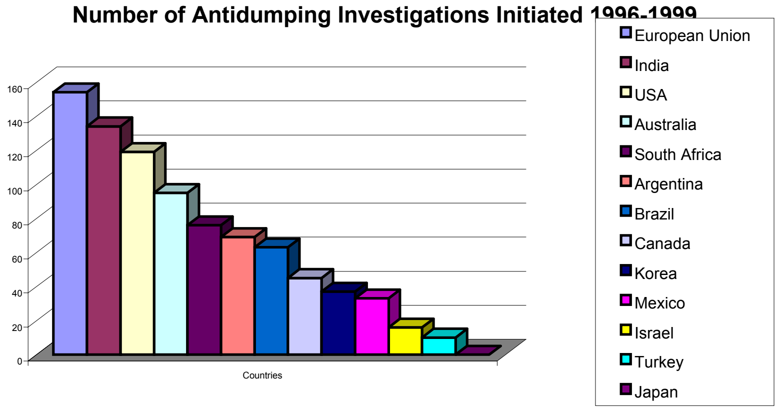
G. TURKISH MARKETS ARE MORE ACCESSIBLE FOR U.S. EXPORTS THAN OTHER NATIONAL MARKETS THAT ARE INCLUDED IN THE SAFEGUARDS INVESTIGATION

1. Tariffs and Quantitative Restrictions: The introduction of Turkey's customs union with the European Union in 1996 resulted in substantial revisions to Turkey's tariff regime. Turkey now applies the EU's common external customs tariff for most third country imports of products covered by the Customs Union including those from the U.S. The weighted rate of protection for industrial products from the U.S. and other third countries dropped from 11% to 4% between 1996 and 2000. This rate of protection is considerably lower than those in other countries whose steel exports are subject to this investigation. (China: 17%, Russia: 11.5 - 15%, Brazil: 13.7%, Korea: 8.9%, Japan: 6.5%). These data are provided by the Office of the U.S. Trade Representative for the year 2001. In addition to the effective rates of protection, another common measure of openness to trade is the ratio of total trade to GDP. In 2000, this ratio was 40.7 % for Turkey while it was 19.8% for the United States.

2. Government Procurement: The entry into force of a Bilateral Tax Treaty between the U.S. and Turkey in 1998 eliminated the application of a 15% withholding tax on U.S. bidders for Turkish government contracts. New constitutional amendments are being drafted for full WTO compatibility in state tender laws, to be voted in Parliament before the end of 2001.

3. Intellectual Property: Modernization of intellectual property laws have further decreased barriers for third country exports into Turkey. The Turkish parliament approved new patent, trademark and copyright laws as a part of harmonization with the EU in 1995, and amended these laws for WTO compatibility. In late February 2001, the parliament approved *unanimously* Amendments to the Copyright Law designed to met WTO standards. As a result, the USTR has upgraded Turkey from "priority watch list" to a "watch list" regarding copyright violations. Several cases on trademark, patent and copyright violators and have already been brought to conclusion successfully in Turkish courts.

4. Anti-competitive practices: Turkey's trade policies fully comply with WTO requirements, including those set forth in the Agreement on Antidumping and the Agreement on Subsidies and Countervailing Measures. Turkey also has adopted EU standards concerning competition and consumer protection, as a part of the Customs Union. Under these standards, already concluded or ongoing Antidumping investigations in Turkey over the period of investigation have imposed <u>no</u> restrictions on imports from the U.S. Moreover, the number of Antidumping investigations initiated in Turkey are far smaller than that in many of the competing exporting countries, as illustrated in the chart on the next page.



5. Foreign investment regulation: The U.S.-Turkish Bilateral Investment Treaty that entered into force in 1990 furthered a liberal investment regime where foreign investments receive national treatment. Almost all areas open to the Turkish private sector are fully open to foreign participation. Furthermore, constitutional amendments accepted by the Parliament in 1999 grant access to international arbitration for foreign investors under any contract defined as a concession - further liberalizing the investment atmosphere.

H. U.S. IMPORT CONTROLS EXIST ON PRODUCTS OTHER THAN STEEL THAT ARE IMPORTANT TO TURKEY

After textiles and valuable stones, steel is the third largest export category from Turkey to the U.S. However it is not the only important Turkish export that has restricted access to U.S. markets; Turkish textiles are still being subjected to quotas and minimum import prices. Additionally, several agricultural products from Turkey have experienced large decreases in exports to the U.S. since 1996 due to a variety of non-tariff barriers that are still in place today.

I. "DOUBLE PROTECTION" OF U.S. STEEL PRODUCERS FROM TURKISH STEEL COMPETITION IS UNNECESSARY

1. Many imports are subjected to duties under more than one statue of U.S. trade law. For example, steel reinforcing bars, or "rebar," is already subject to duties originating from an earlier anti-dumping investigation. These duties have already remedied the injury that was caused to the domestic industry by unfair imports and further safeguards against the same product are unwarranted. Tactics used by U.S. steel companies in seeking "double-protection" from foreign competition were strongly criticized by the European Union and Korea in the recent Safeguards Committee meeting at the World Trade Organization.

2. The present case is <u>not</u> an unfair trade case. As opposed to Antidumping or Countervailing Duty cases, a global safeguard action does not allege unfair trade; it simply functions on the premise that the petitioning industry wants protection in order to adjust to increasing import competition. The "fair" or "unfair" nature of the trade is not at issue. Therefore additional import restraints in order to create a "level playing field" between U.S. and foreign steel producers, as demanded by the domestic industry, are not warranted. Under this statute, any differences in industry performance are a result of factors of competitiveness. The underlying statute is commonly considered a mechanism to adjust to fair trade competition.